

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Michael Kubayanda, Chairman;
Ashley E. Poling, Vice Chairwoman;
Mark Acton;
Ann C. Fisher; and
Robert G. Taub

Periodic Reporting
(Proposal Two)

Docket No. RM2021-4

NOTICE OF PROPOSED RULEMAKING ON ANALYTICAL PRINCIPLES
USED IN PERIODIC REPORTING (PROPOSAL TWO)

(Issued March 26, 2021)

I. INTRODUCTION

On March 24, 2021, the Postal Service filed a petition pursuant to 39 CFR 3050.11 requesting that the Commission initiate a rulemaking proceeding to consider changes to analytical principles relating to periodic reports.¹ The Petition identifies the proposed analytical changes filed in this docket as Proposal Two.

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Two), March 24, 2021 (Petition).

II. PROPOSAL TWO

Background. To estimate costs avoided by mailer presort activities for First-Class Mail letters, a workshare model is developed and filed each year as part of the Postal Service's Annual Compliance Report (ACR). Petition, Proposal Two at 1. Mail processing flow is "modeled by rate category, and the activities involved are assigned costs based on the appropriate wage rate, productivity, and related indirect (i.e. "piggyback") costs of each operation." *Id.* The resulting costs are called "directly modeled" costs. *Id.* Mail processing costs are separately calculated as part of the Cost and Revenue Analysis (CRA) Report using In-Office Cost System (IOCS) data for the same activities at the product level, or within the same cost pools. *Id.* However, the "directly modeled" costs can differ from those calculated as part of the CRA Report for several reasons.² As a result, the "CRA Adjustment Factor" was developed in order to "calibrate the model and 'true-up' the modeled costs to the costs reported in the CRA Report," using the following equation:³

$$\text{MailProcUnitCost}_i = \text{ModelUnitCost}_i * \text{CRAAdjustmentFactor} + \text{FixedUnitCost}$$

The Postal Service notes that, under the current methodology, "cost pools that are directly modeled are treated as proportional, cost pools that are operationally determined to be unrelated to workshare are treated as fixed, and the remaining cost pools are treated as partly proportional." Petition, Proposal Two at 3. It further notes that, for the last group of cost pools, "unit costs are divided into proportional and fixed components based on costs in the directly assigned cost pools." *Id.*

The Postal Service indicates that, in the years since the methodology described above was first established, "the structure of cost pools has been configured to better

² *Id.* The Postal Service notes that CRA costs are not only subject to sampling variation, but the data used to calculate costs for the CRA Report capture additionally incurred costs from activities that cannot be directly modeled. *Id.*

³ See *id.* at 1-2. The CRA Adjustment Factor was initially developed in Docket No. R2006-1. *Id.* at 2-3; see generally Docket No. R2006-1, Opinion and Recommended Decision, Volume 1, February 26, 2007.

align with operational practice, enhancing the ability to conduct operational analysis of cost pools.” *Id.* The Postal Service further indicates that, “[w]ith these developments in data availability, the current methodology for calibrating the [cost avoidance] models to CRA costs is in need of refinement.” *Id.*

Proposal. With Proposal Two, the Postal Service seeks to “revise cost pool classifications for the determination of the proportional and fixed adjustment to modeled costs” and “update the cost pool classification vocabulary to better reflect how the cost pools are treated in the calibration methodology.” *Id.* at 4. The Postal Service proposes three new cost pool classifications: “Modeled/Proportional Pools,” “Unrelated to Presort” and “Correlated with Presort.” *Id.*

“Modeled/Proportional Pools” include “cost pools where the mailflow model directly characterizes the flow of mail through the pools and measures the cost of the component activities.” *Id.* at 5. “Unrelated to Presort” include cost pools where the “activities performed are incurred because of piece characteristics unrelated to presort and thus the costs are invariant to presort, and pools where the costs have spurious correlation with presort.” *Id.* at 6. “Correlated with Presort” include cost pools that are generally associated with non-piece sorting allied labor and support operations. *Id.* at 8. The Postal Service notes that “Correlated with Presort” cost pools may include costs that are “partly avoidable with a greater degree of presorting, but not directly proportional to modeled piece costs.” *Id.*

Finally, the Postal Service notes that the model would be modified in one additional way. The Postal Service indicates that costs associated with the distribution of mailpieces to P.O. Boxes will no longer be included as part of the model. *Id.* at 10. It describes subsequent “costing enhancements” that have eliminated the need to model these costs, which it states are “explicitly measured” as part of the ACR. *Id.* at 10-11.

Impact. Under the Postal Service’s proposed methodology, avoided costs and passthroughs associated with First-Class Mail letters would be affected. Those effects are presented in Table 3 of the proposal. See *id.* at 14.

III. NOTICE AND COMMENT

The Commission establishes Docket No. RM2021-4 for consideration of matters raised by the Petition. More information on the Petition may be accessed via the Commission's website at <http://www.prc.gov>. Interested persons may submit comments on the Petition and Proposal Two no later than May 14, 2021. Pursuant to 39 U.S.C. 505, Katalin K. Clendenin is designated as an officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding.

IV. ORDERING PARAGRAPHS

It is ordered:

1. The Commission establishes Docket No. RM2021-4 for consideration of the matters raised by the Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Two), filed March 24, 2021.
2. Comments by interested persons in this proceeding are due no later than May 14, 2021.
3. Pursuant to 39 U.S.C. 505, the Commission appoints Katalin K. Clendenin to serve as an officer of the Commission (Public Representative) to represent the interests of the general public in this docket.
4. The Secretary shall arrange for publication of this Order in the *Federal Register*.

By the Commission.

Erica A. Barker
Secretary